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REVENUE REVIEW

Quarterly
Revenue Report
for the
State of Michigan

FEBRUARY 2005

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TOTAL REVENUE: 13 MAJOR TAXES AND LOTTERY

| <u>1st Qtr FY 2003-04</u> | <u>1st Qtr FY 2004-05</u> | <u>1st Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$4,973.8 million | \$5,479.7 million | 10.2% | 10.2% |

Revenue collections for first quarter (November–January) fiscal year (FY) 2004-05 were \$505.9 million or 10.2% higher than first quarter FY 2003-04 collections. Adjusted for tax changes and timing issues, revenue was up \$308.9 million or 6.7%. The adjusted revenue does not include income tax refunds, casino wagering, tobacco taxes, and the state education tax.

INCOME TAX (NET)

| <u>1st Qtr FY 2003-04</u> | <u>1st Qtr FY 2004-05</u> | <u>1st Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$1,853.5 million | \$1,906.0 million | 2.8% | 2.8% |

Income tax revenue consists of three components— withholding, annual payments, and quarterly payments. Withholding payments are based on workers' earnings and make up almost 85% of total income tax collections. Annual and quarterly payments are based on self-employment earnings and other income sources, such as capital gains.

Net income tax collections, which include income tax refunds, for first quarter FY 2004-05 were \$52.5 million or 2.8% higher than first quarter FY 2003-04 collections. Withholding payments were up 3.2%, quarterly payments and annual payments were up 9.2%, and refunds were up 29.8%.

SALES AND USE TAXES

| <u>1st Qtr FY 2003-04</u> | <u>1st Qtr FY 2004-05</u> | <u>1st Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$1,899.8 million | \$2,074.9 million | 9.2% | 9.2% |

Sales tax collections are derived from the sale of taxable items such as motor vehicles, furniture, apparel, food consumed at restaurants, and other general merchandise. The use tax is applied to telephone services, leased motor vehicles, hotels and motels, gas and electric utilities, and remote sales.

Sales and use tax collections for first quarter FY 2004-05 were \$175.1 million or 9.2% higher than the year-ago quarter. Sales tax due to motor vehicle sales decreased 13.9% while all other sales tax collections were up 11.2% in the first quarter FY 2004-05 relative to the year-ago first quarter.

SINGLE BUSINESS AND INSURANCE TAXES

| <u>1st Qtr FY 2003-04</u> | <u>1st Qtr FY 2004-05</u> | <u>1st Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$477.2 million | \$539.1 million | 13.0% | 13.0% |

Single business tax is applied to the value added of business activities; insurance tax is based on insurance premiums. For first quarter FY 2004-05, single business and Insurance tax collections were \$61.9 million or 13.0% above the year-ago first quarter.

OTHER REVENUE

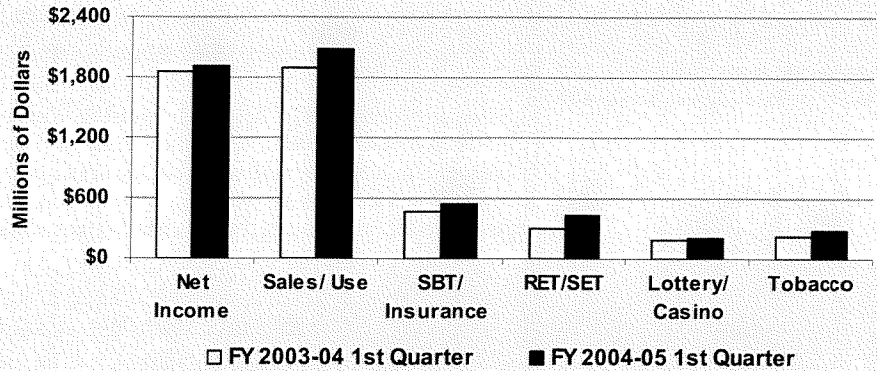
| <u>1st Qtr FY 2003-04</u> | <u>1st Qtr FY 2004-05</u> | <u>1st Qtr % Change</u> | <u>YTD % Change</u> |
|---------------------------|---------------------------|-------------------------|---------------------|
| \$743.3 million | \$959.7 million | 29.1% | 29.1% |

Other revenue—which includes primarily the state education tax (SET), the real estate transfer (RET) tax, the tobacco tax, and revenue from the lottery—for first quarter FY 2004-05 was up \$216.4 million or 29.1% from the first quarter of FY 2003-04. Much of this increase was due to state education tax timing changes and the tobacco tax increase.

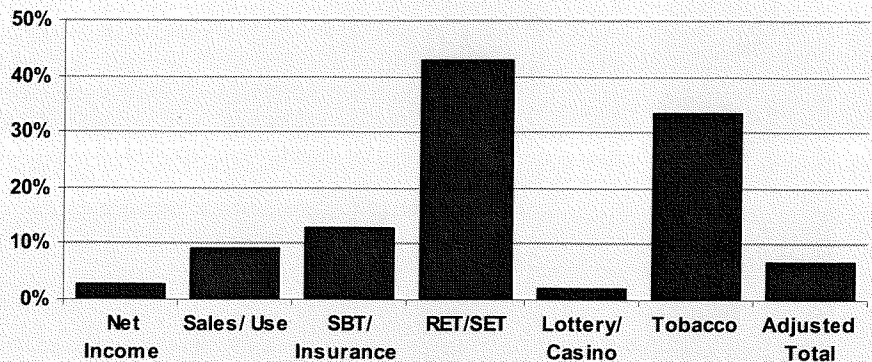
Adjusted total revenue (which does not include income tax refunds, casino wagering, tobacco tax, and the state education tax) increased 6.7% in the first quarter of FY 2004-05.

GF/GP revenue is up \$25 million and SAF revenue is up \$25 million from first quarter target estimates—still within the margin of error.

State of Michigan Revenue
1st Quarter Comparison



State of Michigan Revenue
% Change From Year-Ago Quarter and Fiscal Year-to-Date



Revenue Quarterly Review: 1st Quarter (November–January) FY 2004-05 (Millions of Dollars)

| | FY 2004-05 | Percent Change from Year-Ago | FY 2004-05 | Change from Previous | | FY 2004-05 |
|--------------------------------|-------------|---------------------------------|--------------|----------------------|---------|-------------------|
| | 1st Quarter | 1st Quarter | Year-to-Date | Fiscal Year-to-Date | | January Consensus |
| | | | | Dollar | Percent | Forecast Growth |
| Annual Income Tax | \$30.9 | 59.3% | \$30.9 | \$11.5 | 59.3% | 2.3% |
| Quarterly Income Tax | 221.6 | 4.6% | 221.6 | 9.8 | 4.6% | 4.2% |
| Withholding | 1,755.8 | 3.2% | 1,755.8 | 54.7 | 3.2% | 0.5% |
| Subtotal | 2,008.3 | 3.9% | 2,008.3 | 76.0 | 3.9% | 1.0% |
| Income Tax Refunds | 102.3 | 29.8% | 102.3 | 23.5 | 29.8% | 4.2% |
| Net Income Tax | 1,906.0 | 2.8% | 1,906.0 | 52.5 | 2.8% | 0.1% |
| Sales Tax | 1,722.6 | 8.0% | 1,722.6 | 128.2 | 8.0% | 3.6% |
| Use Tax | 352.3 | 15.4% | 352.3 | 46.9 | 15.4% | 4.0% |
| Subtotal | 2,074.9 | 9.2% | 2,074.9 | 175.1 | 9.2% | 3.7% |
| Single Business Tax | 486.6 | 15.7% | 486.6 | 66.0 | 15.7% | 1.5% |
| Insurance Tax | 52.5 | -7.2% | 52.5 | (4.1) | -7.2% | 3.9% |
| Subtotal | 539.1 | 13.0% | 539.1 | 61.9 | 13.0% | 1.8% |
| Casino Wagering | 34.5 | 51.3% | 34.5 | 11.7 | 51.3% | 47.7% |
| Tobacco Tax | 290.0 | 33.6% | 290.0 | 72.9 | 33.6% | 19.8% |
| Lottery | 162.8 | -4.5% | 162.8 | (7.7) | -4.5% | 0.8% |
| Industrial/CommFacility Taxes | 37.0 | 31.7% | 37.0 | 8.9 | 31.7% | -3.1% |
| Real Estate Transfer (RET) Tax | 76.8 | -6.5% | 76.8 | (5.3) | -6.5% | -2.4% |
| State Education Tax (SET) | 358.6 | 61.0% | 358.6 | 135.9 | 61.0% | 1.2% |
| Subtotal | 959.7 | 29.1% | 959.7 | 216.4 | 29.1% | 6.4% |
| TOTAL | \$5,479.7 | 10.2% | \$5,479.7 | \$505.9 | 10.2% | 3.0% |
| ADJUSTED TOTAL | \$4,898.9 | 6.7% | \$4,898.9 | \$308.9 | 6.7% | 2.1% |

NOTE: Consensus revenue figures reflect enacted tax changes. All revenue, except for Lottery, is on an accrual basis and begins with November collections.